

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 20, 2009
POSITION: Oppose

BILL NUMBER: SB 503
AUTHOR: C. Kehoe

BILL SUMMARY: State General Obligation Bond Law: Audits

This bill would require the State Controller (SCO) to prepare an audit plan and audit annually certain General Obligation bond-funded projects or programs to ensure that they are implemented in an efficient and cost-effective manner, and that the bond proceeds are spent in a manner that is legal and consistent with the authorizing measures. The bill would also require the SCO to make certain recommendations to the Legislature and responsible departments and agencies.

FISCAL SUMMARY

This bill would authorize an additional 10 auditor positions to be assigned to certain bonds and would cost approximately \$1.2 million per year over the next six to eight years, with these costs to be funded out of those bonds. This bill makes legislative findings that the cost of these additional audits would be more than offset by savings resulting from increased efficiencies. However, it is unlikely that the SCO could generate enough savings to cover the cost of these additional audits. Furthermore, it is unclear as to how any savings would be captured and applied.

This bill is also unclear as to how the SCO would absorb the costs of preparing the plan for auditing or preparing recommendations to the Legislature. To the extent that these are unfunded activities, SCO will have to redirect resources from other activities in order to accommodate this additional workload.

COMMENTS

Finance is opposed to this bill for the following reasons:

- It would result in increased costs of approximately \$6-8 million that would reduce the amount of funds for projects supported by specific GO bonds, thereby decreasing the available funding for the intended purposes of the bonds. Consequently, this bill would reduce the number of projects that could be completed from those bond funds.
- Requiring the SCO to perform audits is duplicative and costly. Executive Order S-02-07 already requires Finance to audit, or agree to another agent for audit, all bonds passed starting with the November 2006 bond measures, including the bonds specified in this bill.
- Although SCO has the expertise in discovering fiscal savings related to the legality of spending various funds, it is questionable that SCO has the expertise to audit programmatic savings that would result in a more efficient or cost-effective project delivery process.
- Fiscal savings generated by interim audits would stretch bond dollars and help offset the costs of the audits. Fiscal savings identified after the projects are completed may benefit future bond funded projects if they are discovered promptly and corrective action is taken. However, the SCO typically compiles their findings and reports them to Finance and the Legislature in lieu of taking corrective action. As a consequence, the costs of the audits performed after project completion will likely not result in savings for the affected bond funds.

Analyst/Principal (0652) B. Dewey	Date	Program Budget Manager Karen Finn	Date
--------------------------------------	------	--------------------------------------	------

Department Deputy Director	Date
----------------------------	------

Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS	Form DF-43 (Rev 03/95 Buff)
----------------------	-----------------------------

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)**Form DF-43****AUTHOR****AMENDMENT DATE****BILL NUMBER**

C. Kehoe

April 20, 2009

SB 503

- Most General Obligation bond measures have a cap on the amount of bond proceeds that may be used for administrative purposes, including audits. Given the current oversight and auditing functions that are already required and being paid from bond proceeds, many of the bond measures are at or near their cap.
- In Report 2008-604, the BSA has indicated that state agencies have already established controls that, if followed, should provide reasonable assurance that bond proceeds are used as intended. Therefore, this bill is unnecessary.

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							
	LA	(Dollars in Thousands)							
	CO	PROP							Fund
	RV	98	FC	2008-2009	FC	2009-2010	FC	2010-2011	Code
0840/Controller	SO	No	-----	See Fiscal Summary	-----				0001
0690/Cal EMA	CO	No	-----	See Fiscal Summary	-----				6061
2240/HCD	CO	No	-----	See Fiscal Summary	-----				6069
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6056
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6058
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6059
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6060
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6063
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6064
2660/Caltrans	CO	No	-----	See Fiscal Summary	-----				6072
3790/Parks & Rec	CO	No	-----	See Fiscal Summary	-----				6051
3860/Water Res	CO	No	-----	See Fiscal Summary	-----				6052
6440/UC	CO	No	-----	See Fiscal Summary	-----				6048
6610/CSU	CO	No	-----	See Fiscal Summary	-----				6048
6870/Comm College	CO	No	-----	See Fiscal Summary	-----				6049

<u>Fund Code</u>	<u>Title</u>
0001	General Fund
6048	University Capital Outlay Bond Fund,2006
6049	Community College Cap Otly Bd Fd,2006 CA
6051	SafeDrinkWtr,WtrQual/Sup,FldCtrl,RvrCstl
6052	DisasterPreparedness/FloodPreventionBond
6056	Trade Corridors Improvement Fund
6058	Transportation Facilities Acct, HSTRAQPS
6059	PblcTrnsMdrnImp&SrvEnhncmntAcctHSTRAQPS
6060	State-Local Ptnrshp Prog Acct, HSTRAQPS
6061	TrnstSystSftyScrty&DstrRespAcct,HSTRAQP
6063	Hwy-Rlrd Crsng Sfty Acct, HSTRAQPS Fd
6064	Hwy Sfty Rehab & Prsvtn Acct, HSTRAQPS
6069	RegPlnHsg,&InfillIncAcct,Hsg&EmergShltr
6072	Route 99 Account, State